

Chair  
Cabinet Social Policy Committee

## **SOCIAL HOUSING REFORM PROGRAMME: OVERVIEW (Paper One)**

### **Purpose**

1. This paper is one of a set of three social housing reform papers being considered by the Social Policy Committee. Collectively, these papers set out the Government's rationale and objectives for the Social Housing Reform Programme, as well as seeking agreement for immediate actions. The three papers are:
  - a. Social Housing Reform Programme: an overview of the Programme (this paper)
  - b. Social Housing Reform Programme: purchasing social housing places for clients: initial steps and future state (paper two)
  - c. Social Housing Reform Programme: redevelopment of social housing and engagement with the community housing sector and iwi/Maori (paper three)

### **Executive Summary**

2. The Government's Social Housing Reform Programme will provide more New Zealanders in need with quality and affordable housing. It will also ensure that the overall number of houses provided to those most in need from either social housing providers or Housing New Zealand (HNZC) is greater than the current number today.
3. The Government recognises that social housing sits within a continuum of housing provision and pressures on social housing reflect problems in the wider housing market. Increasing the supply of all housing, particularly affordable housing, will contribute to better outcomes for those in need. The Government has already committed \$139 million of capital grants through the Social Housing Unit to support the development of 890 new properties by a range of providers. The Social Housing Reform Programme builds on this and will ensure the social housing sector grows and is more responsive to tenants' evolving needs; that there is a more diverse supply of better social and affordable housing; that government assistance is delivered in a way

that stimulates supply of these houses; and that people's needs and aspirations for housing independence are recognised.

4. We are building an end-to-end social housing system that provides people with quality and affordable housing when and where they need it, looks at other needs those people may have, and supports them into housing independence when they are capable of taking that step. The key elements of this system are:
  - a. Establishing the Ministry of Social Development (MSD) as the single purchaser of social housing places independent of any housing provider, so access to social housing is no longer determined by who owns the house.
  - b. Growing the Community Housing Providers (CHPs) through MSD's contracting and transfers of HNZA stock.
  - c. An expanded role for CHPs because they are able to respond to the particular needs of tenants.
  - d. Making Income Related Rent Subsidies (IRRS) available to non-government CHPs to help those providers to grow.
  - e. The introduction of tenancy reviews to ensure assistance is provided to those who need it for the duration of their need.
  - f. An ongoing programme of sales, reinvestment and redevelopment by HNZA as part of its business-as-usual asset management
  - g. Housing more families by making better use of HNZA land, by opening it up for redevelopment.
5. Overall, the new system will involve a greater role for CHPs, with the government using a variety of levers (contracting and transactions) to facilitate this growth. The purpose of the changes is to develop a system that is more responsive to tenants' needs. Implementing the system will be a combination of redevelopment and business-as-usual disposals by HNZA, along with transfers of properties to Community Housing Providers. These will vary from small scale transfers to CHPs, which bring the benefits of understanding their tenants' needs; to large scale redevelopments such as the Tamaki Redevelopment Company's programme, which will expand the supply of affordable housing. We will report progress on the reform programme to Cabinet in November 2015, when it can be reviewed and the next steps announced.
6. We want to ensure that New Zealanders in need are receiving the housing they need. This is why we have placed MSD in a purchasing role, so access to housing is no longer determined by who owns the house. State-owned housing will remain a major part of the solution, but we are focussing on getting better outcomes for people, and harnessing the resources and innovation to improve the well-being of some of our most vulnerable citizens.

## **Background to the Government's Social Housing Reform Programme**

7. Assisting children and families in material hardship is a priority for the Government during this term of Parliament. The Government's Social Housing Reform Programme will make an important contribution to this wider agenda by providing more New Zealanders in need with quality housing.
8. The Government will continue to be the largest owner of subsidised houses and it will continue to increase subsidies for New Zealanders in housing need. Currently, around 290,000 households receive taxpayer support through the Accommodation Supplement, which totals \$1.2 billion a year. In addition, another 61,000 households receive income related rents, a subsidy that has increased by almost \$200 million over the past five years to \$718 million this year, and is scheduled to increase by \$162 million to \$880 million by 2017/18.
9. The Government recognises that New Zealanders need security and choice in housing and that those needs change over a lifetime. The Social Housing Reform Programme is designed to better assist those in most serious need and to support more New Zealanders into housing independence when they are capable of making that transition.
10. The Government also recognises that social housing sits within a continuum of housing provision and pressures on social housing reflect problems in the wider housing market. HNZA redevelopment and sales will help increase the supply of all housing, including affordable housing.
11. Therefore, we are working closely with HNZA and community and social sector groups, to do a better job of supporting more New Zealanders in housing need.
12. The Government has already committed \$139 million of capital grants through the Social Housing Unit to support the development of 890 new properties including Papakainga housing on Maori land, affordable housing developments and a smaller number of social housing. Some of the recipients of these grants have subsequently evolved into registered Community Housing Providers.
13. The Social Housing Reform Programme builds on this and will ensure the social housing sector – including the Government and community providers – grows and is more responsive to tenants' evolving needs; that there is a more diverse supply of better social and affordable housing; that government assistance is delivered in a way that stimulates supply of these houses; and that people's needs and aspirations for housing independence are recognised.

## **Context and challenges**

14. The Government's new approach will address a number of challenges:
  - a. About 4200 people assessed as in high need are on the Social Housing Register, and an additional 1400 Housing New Zealand tenants have applied for

transfers. The Register has grown in recent years and experienced a sharp increase after MSD took over the assessment.

- b. Around one third of the \$18.7 billion HNZC portfolio is in the wrong place or of the wrong type to meet this need. For instance, three bedroom accommodation makes up 43 per cent of the HNZC stock, but just 24 per cent of demand; one bedroom accommodation makes up 25 per cent of demand, but just 9 per cent of HNZC supply. 5% of households nationally are overcrowded; in East and South Auckland, 9% are.
  - c. There are poor incentives for people to move from social housing or for providers to assist tenants to move. A person receiving the IRRS faces high marginal tax rates if they get a job and move out of the social house.
  - d. More broadly, changes will increase the Government's ability to serve the most vulnerable New Zealanders in different ways that better suit their needs. Around a third of HNZC's households are one parent families with children. At the same time, tenants are aging, with around 20% of households over 65 years old. Given the changing housing needs of tenants, we need to find different ways of working in addition to retaining HNZC as an important part of the solution.
15. The Social Housing Reform Programme will also contribute to the Government's support for more New Zealanders to move into home ownership and housing independence. It will do this by freeing up inefficiently used land from under HNZC ownership and promoting the development of both social and affordable housing on former state house sites, particularly in high demand regions like Auckland.

### **Reforming the Social Housing System**

16. Our goal is a strong social housing system which creates a pipeline to independence for tenants and supports them while they are at their most vulnerable. It is an end-to-end system, improving the ability for people to enter and incentives to leave social housing and a better experience while they are a social housing tenant. It will be more supportive of tenants by matching them with housing better suited to their needs in terms of location, size, quality and configuration, which will also improve the efficiency of the social housing system.
17. Our approach draws on the recommendations of the Housing Shareholders Advisory Group, which included representatives of community and private sector organisations - including the NZ Housing Foundation and Accessible Properties (which manages IHC's 1100 houses). In 2010, the Advisory Group called for the community housing sector to play a greater role in assisting people requiring housing support, as it does in other developed countries.

## Improved allocation through MSD purchasing

18. Over the past four years, the Government has taken several steps to improve the social housing system. The purchase function is now positioned independently of any provider. The transfer of the housing needs assessment function from HNZC to the Ministry of Social Development (MSD) means we have an informed purchaser of social housing places focused entirely on meeting the housing needs of tenants, alongside their other needs, and reducing long-term dependency.
19. Income Related Rent Subsidies (IRRS) are now available to non-government Community Housing Providers (CHPs). This means MSD has greater flexibility to secure access to housing where it is most-needed. Ministers will control how many IRRS are offered, and influence in what areas and for which types of houses they are offered.
20. MSD will progressively use its purchasing levers to drive change in the social housing market and to purchase IRRS places that meet social housing needs. Paper two sets out changes necessary to give MSD more flexibility to act as an effective purchaser of IRRS places.
21. It takes time to build new houses, so we need to ensure that these are well used. MSD has started to implement tenancy reviews to ensure social housing is provided to those who most need it for as long as they need it. To complement tenancy reviews and manage pressure on social housing, MSD is developing a range of tools to assist tenants to move into independence from social housing when this is appropriate.

## Provision – redevelopment of the social housing stock

22. For MSD to be able to exercise its purchase function effectively, and to address the challenges outlined in paragraph 14 above, changes need to be made to the current stock of social houses. We propose to do this in several ways:
  - a. HNZC will continue with its business-as-usual maintenance upgrades, redevelopment and disposals programme following a strategic review and update of its redevelopment strategy. Over time, HNZC's portfolio of houses will evolve as a result of the transactions and its own redevelopment, which have averaged roughly 435 houses bought and 625 houses sold per year over the last five years. HNZC's activity is discussed in more detail below.
  - b. Larger scale joint ventures such as the Tamaki Redevelopment Company's programme will continue.

[withheld under s. 9(2)(f)(iv) - maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

- c. Some HNZN houses will transfer to CHPs where they can better meet the difficult challenges that some of our tenants face. These transactions will be carried out by the current Establishment Unit which can act as an honest broker in a way which HNZN finds difficult (given that it is in effect selling properties to its competitors). Paper three outlines the development of these transactions in more detail.
  - d. Redevelopment opportunities will be opened up through transactions managed by the Establishment Unit by encouraging social housing providers to partner with investors/developers to build more housing, including social and affordable housing, by intensifying HNZN land.
23. Together these transactions will diversify supply, provide greater choice and innovation, and contribute to growing a strong social housing market to support New Zealanders who need housing.
24. Housing New Zealand, which currently owns around 65,000 state houses (with another 3000 leased), will remain the largest provider of social houses for the foreseeable future. And the government will continue to support tenants financially.

***HNZN and its business-as-usual activities***

25. As part of its business-as-usual portfolio management, Housing New Zealand invests in redevelopment and purchases housing in high-demand areas, and sells surplus houses in low-demand areas. Funds from sale are typically reinvested in other houses. In 2013/14, HNZN disposed of 365 properties, and a further 435 properties were written-down or demolished. A total of 318 properties were acquired through the purchase of 145 existing properties and construction of 173 properties.
26. Examples of Housing New Zealand redevelopment, sales and reinvestment include:
- a. **Maria Street, Onehunga:** Subject to resource consent, 4 existing HNZN units will be replaced with 23-26 social housing units, all to remain in HNZN ownership. Construction is expected to begin in mid-2015.
  - b. **Sunnymead Avenue, Fenchurch:** 4 units will be replaced with 21 new units on a 4430m<sup>2</sup> site, with a mix of two, three and four bedroom properties.
  - c. **Porirua:** 23 vacant HNZN properties are pending sale. 20 of these are three bedroom houses, but the majority of the 63 people on the waiting list in Porirua are seeking one bedroom homes. Funds raised will be reinvested by HNZN in the Wellington region in smaller houses/units to better match the demand.

28. However we expect more activity than this if we are to deliver on our vision of more options to meet people's social housing needs. The Asset Management Strategy is being revised to align with our Social Housing Reform Programme and our objectives for housing supply growth. We anticipate that revised strategy will show significantly higher annual new builds and redevelopment in high demand areas, and more sales in low-demand areas. The strategy will be finalised in the first half of 2015 following completion of a strategic review of the Housing New Zealand operation.

### Transfers to Community Housing Providers

29. The emergence of a stronger community housing sector will complement significant and ongoing taxpayer investment through HNZC, so more New Zealanders can access housing where and when they need it. We expect that tenants' needs will be better met through the greater involvement of Community Housing Providers<sup>1</sup>. Their role will increase as a result of MSD contracting and through sales of HNZC houses to them. CHPs bring some additional benefits to the system because:
- a. they are closer to tenants – from iwi to organisations focussed on specialised groups such as the disabled – and therefore they have the opportunity to support people with whom they already have a close relationship.
  - b. they bring new approaches to supporting tenants and can deliver integrated wraparound support services to the benefit of tenants.
  - c. they can determine how best to combine different functions – property ownership, tenancy management, and social support services. For example, some providers may be suited to doing all three. In other cases, particular services – say, tenancy management – may be best provided across all social housing owners in a particular region.
  - d. they may also be able to access new sources of investment funding from charitable sources private investors.
30. The sales transactions to CHPs will be quite different in different parts of the country, depending on how HNZC's stock relates to local demand for social housing:
- a. In some areas <sup>[withheld under s. 9(2)(f)(iv)]</sup> demand for social housing is reducing and HNZC's housing stock is excess to demand. In these areas, HNZC's housing stock is likely to be sold to CHPs or tenants, or in some cases, moved or

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1 CHPs may include organisations such as social support organisations like the Accessible Properties, council subsidiaries and more commercial players. All CHPs are regulated by MBIE and must be registered as a CHP in order to qualify for IRRS.

demolished. The number of social houses in these areas will reduce – reflecting the lower demand for social housing. Alternatively, CHPs may see opportunities for redevelopment that are currently not planned by HNZC.

- b. In some areas [withheld under s. 9(2)(f)(iv)] demand for social housing is stable. In these areas, transactions are likely to involve selling some HNZC properties to one of more CHPs or a consortium involving a CHP. This will build capable providers at scale, who can bring in innovation and provide services to tenants.
- c. In Auckland, the demand for social housing is increasing. Opportunities here are not limited to just seeking out new providers that can deliver better services to tenants, but also to start making inroads into broader housing challenges in our biggest city by looking at opportunities for redevelopment.

### ***Opportunities for redevelopment and building more houses***

- 31. By making available HNZC and Crown-owned land in areas of increasing housing demand, we can create an environment where social housing providers can partner with investors/developers to build additional housing, including social and affordable housing, via intensification on existing sites.
  - a. This involves sales of land-rich, asset-poor properties in high demand areas such as Auckland. These transactions will bring forward redevelopment to deliver a net increase in social and affordable housing.
  - b. The Tamaki Regeneration approach is one example, but other options such as sale to private developers or joint venturing (with an obligation to provide social and affordable housing) may also be appropriate depending on the site and wider project objectives.
- 32. The current HNZC properties - typically old, stand-alone houses on larger sections – are likely to be sold in clusters to developers, with a requirement for a number of social and affordable houses in the development. Developers will need to partner with a registered provider to receive Income Related Rent Subsidies (IRRS). As well as improving tenants' housing, this will be a major element in increasing affordable housing-supply in Auckland.

### **Programme to date**

- 33. Following the Housing Shareholders Advisory Group report in 2010, the Government's programme of work has so far included:
  - a. In 2011, we set up the Social Housing Unit, as recommended by the Advisory Group, to grow the community housing sector. \$139 million has been allocated to the Social Housing Fund to provide capital grants to CHPs for developing 890 units.



- b. In 2013, we passed the Social Housing Reform (Housing Restructuring and Tenancy Matters Amendment) Act to open up social housing to approved non-government providers so they can receive the same subsidies as HNZC. We also established a framework for the registration and regulation of CHPs which receive IRRS.
  - c. In April 2014, the assessment of social housing applications moved from HNZC to the Ministry of Social Development. This allows the Ministry to draw on a larger number of housing providers and to coordinate housing assistance with wraparound services for those in need.
  - d. And during the election campaign, the Prime Minister and the then Housing Minister confirmed the National Party's housing policy would facilitate a shift from what was a state housing monopoly to a range of social housing providers.
34. It is envisaged that early next year the Prime Minister will set out the objectives and next steps of the Social Housing Reform Programme. He will focus particularly on the need to provide quality and affordable housing to more New Zealanders in need, as part of the Prime Minister's wider focus on helping children and families in material hardship.

#### **Next steps**

35. This paper and accompanying Cabinet papers seek Ministers' agreement to the next steps in the Social Housing Reform Programme. Specifically, in coming months the Government will:
- a. Hold informal engagements with community housing stakeholders outlining Government's thinking and upcoming decisions.
  - b. Introduce a package of proposals to reduce pressure on social and emergency housing, focussing on tools that support pathways out of social housing ( see paper two)
  - c. Issue an RFP seeking to increase the number of IRRS places in Auckland by 300 (see paper two). An Expressions of Interest process will begin in December 2014, and depending on the responses, a tender process will start in early 2015.
  - d. Start the initial transactions process (see paper three)
  - e. Commence national engagement in February with iwi/hapū, Maori organisations, CHPs and other entities (see paper three). This engagement process will be followed by transaction specific consultation in areas where potential transactions may occur.
36. Cabinet can expect to see further reports on a range of implementation activity over the next year. Work will continue to:

- a. further develop the Ministry of Social Development's social housing purchasing role, including:
  - i. development of a purchasing strategy, which will use information to drive change in the social housing market.
  - ii. testing new approaches to contracting for supply as a way to stimulate new social housing supply
- b. finalise minimum quality standards for social housing, including for Housing New Zealand, possibly as part of a broader approach to ensuring minimum standards apply to all rental accommodation.
- c. complete a strategic review of HNZC to align it with the Government's Social Housing Reform Programme.
- d. introduce legislation to increase the flexibility over what IRRS can be used for.

[withheld under s. 9(2)(f)(iv) - maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

### **Objectives and Bottom lines**

37. To guide the development of the programme and ensure protection of tenants and those in housing need, we propose committing to a series of objectives and bottom lines. We propose that the objectives of the Social Housing Reform Programme are to:
- a. ensure that people who need housing support can access it and receive social services that meet their needs.
  - b. ensure that social housing is of the right size, configuration and quality, and in the right areas, for those households which need it.
  - c. help social housing tenants to independence, as appropriate.
  - d. encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities.
  - e. help increase the supply of affordable housing, especially in Auckland.
38. In addition, we propose that the Government makes the following commitments. Over the next few years:
- a. Housing New Zealand and community housing providers will collectively provide more social housing places in New Zealand than there are now – particularly in Auckland and Christchurch.
  - b. Housing New Zealand Corporation will continue to be by far the biggest owner of social housing in New Zealand and by 2017 we envisage it will provide around 60,000 properties.

- c. Properties will be sold only if this results in better services for tenants and fair and reasonable value for taxpayers.
- d. Tenants in properties that are sold will continue to be housed for the duration of their need.
- e. The Government will spend more on income-related rent subsidies and ensure that Housing New Zealand Corporation has enough capital to build new social housing and redevelop its existing properties.

39. Ministers will report progress in the Social Housing Reform Programme to Cabinet in November 2015, when the programme will be reviewed and next steps announced.

### **Fiscal Implications**

40. For our reforms to work to alleviate the housing needs of vulnerable and low income New Zealanders, the new social housing system will require greater government funding than at present. The amount of any additional subsidy is yet to be determined. The reforms will also require increased administrative funding which will be sought in Budget 2015.

41. Overall, however, our reforms will:

- a. Unlock surplus land for urban housing markets and increase the supply of both social and affordable housing;
- b. Over the medium-to-longer term, reduce social deprivation which is a large cost to society and taxpayers; and
- c. Reveal the true (currently partially obscured and understated) costs of social housing, including the costs of improved services to tenants.

### **Risks**

42. There are major risks to our reforms which we will need to manage carefully. We need to ensure that the explicit and implicit protections for tenants within the current system, for instance stemming from the Crown ownership of HNZA, are maintained. Examples of risks that we will address include:

- a. Ensuring that CHPs are financially sustainable as they expand their coverage. If one of them were to become financially distressed, this could present risks to ongoing tenancies and fiscal risks to the Crown.
- b. Ensuring that regulatory arrangements prevent unacceptable treatment of tenants.
- c. Ensuring that communications with existing tenants enable them to understand any planned changes

43. In addition, there are some challenges relating to how the system will operate:
- a. In Auckland especially, the supply of houses may not increase fast enough to meet demand, resulting in a continued shortage despite the availability of increased subsidy.
  - b. There are uncertainties around the value that can be realised from sales and of the costs of creating more social housing places via IRRS and other subsidies.

### **Publicity**

44. Over the course of the next weeks Ministers will reiterate the Government's commitment to improving the social housing system. We consider that delegated responsibility for publicity is appropriate to support the Social Housing Reform Programme.
45. A constant message to external audiences will be that the conversation needs to change from "how many state houses are there?" to "how are we meeting the housing needs of poor and vulnerable New Zealanders?" It should no longer matter who owns the house or who provides the service (which is government funded), but rather whether those in need are receiving what they need. State-owned housing will remain a major part of the solution, but we are focussing on getting better outcomes for people, and harnessing the energies and innovation of New Zealanders to improve the well-being of some of our most vulnerable citizens.

### **Consultation**

46. The Treasury, Ministry of Business Employment and Innovation, and the Ministry of Social Development have been consulted and support this paper. The Department of the Prime Minister and Cabinet has been informed.

### **Recommendations**

47. The Minister of Finance and the Minister for Social Housing recommend that Cabinet Social Policy Committee:
- 1 **Note** that the Government's Social Housing Reform Programme is aimed at improving the lives of vulnerable New Zealanders by getting them into quality housing which meets their needs for the duration of that need.
  - 2 **Note** that the programme comprises:
    - a. Establishing the Ministry of Social Development (MSD) as the single purchaser of social housing places independent of any housing provider, so access to social housing is no longer determined by who owns the house.
    - b. Growing the Community Housing Providers (CHPs) through MSD's contracting and transfers of HNZA stock.

- c. An expanded role for CHPs because they are able to respond to the particular needs of tenants
  - d. Making Income Related Rent Subsidies (IRRS) available to non-government CHPs to help those providers to grow
  - e. The introduction of tenancy reviews to ensure assistance is provided to those who need it for the duration of their need
  - f. An ongoing programme of sales, reinvestment and redevelopment by HNZC as part of its business-as-usual asset management
  - g. Housing more families by making better use of HNZC land, by opening it up for redevelopment.
- 3 **Agree** to commence the next steps of the reform programme including Ministers engaging with key stakeholders to outline the Government's thinking and upcoming decisions.
- 4 **Agree** that the objectives of the Social Housing Reform Programme are to:
- a. ensure that people who need housing support can access it and receive social services that meet their needs.
  - b. ensure that social housing is of the right size, configuration and quality, and in the right areas, for those households which need it
  - c. help social housing tenants to independence, as appropriate
  - d. encourage and develop a more diverse ownership of social housing, with more innovation and responsiveness to tenants and communities
  - e. help increase the supply of affordable housing, especially in Auckland.
- 5 **Agree** that the Government makes the following commitments. Over the next few years:
- a. Housing New Zealand and community housing providers will collectively provide more social housing places in New Zealand than there are now – particularly in Auckland and Christchurch.
  - b. Housing New Zealand Corporation will continue to be by far the biggest owner of social housing in New Zealand and by 2017 we envisage it will provide around 60,000 properties.
  - c. Properties will be sold only if this results in better services for tenants and fair and reasonable value for taxpayers.

- d. Tenants in properties that are sold will continue to be housed for the duration of their need.
- e. The Government will spend more on income-related rent subsidies and ensure that Housing New Zealand Corporation has enough capital to build new social housing and redevelop its existing properties.

6 **Invite** the Minister of Finance and Minister for Social Housing to report progress in the Social Housing Reform Programme to Cabinet in November 2015.

7 **Note** that the new social housing system will require greater government funding than at present

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Hon Bill English  
**Minister of Finance**

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Hon Paula Bennett  
**Minister for Social Housing**